BN TransCanada Rises Most Since 2011 on Fund Activism Report (1)
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(Updates with investor comments starting in eighth paragraph.)

By Rebecca Penty

Sept. 18 (Bloomberg) -- TransCanada Corp., the second-largest Canadian pipeline operator, rose the most in more than three years amid speculation U.S. activist hedge funds are reviewing the company for a possible breakup.

TransCanada, based in Calgary, rose 3.3 percent to C$60.81 at the close in Toronto, the most since August 2011. The stock has increased 25 percent this year, more than the 19 percent gain for Enbridge Inc., Canada's largest pipeline company by market value.

Daniel Loeb's Third Point LLC has amassed a stake in TransCanada and is among funds that became interested in the company after a Citigroup Inc. report in June suggested a breakup would boost the stock, Reuters said today, citing unidentified people familiar with the matter.

Shawn Howard, a TransCanada spokesman, and Third Point's Elissa Doyle declined to comment on investors' interest, both citing policies against discussing rumors.

"TransCanada has a well-defined strategic plan in place to increase long-term shareholder value and we are focused on continuing to deliver on this plan successfully," Howard said in an e-mail.

TransCanada's stock would be valued at C$76 in a breakup, which would include spinning off the U.S. power business into a tax-free entity and putting its remaining U.S. gas assets into its TC PipeLines LP unit, analyst Faisel Khan wrote in the Citigroup note.

Company Plans

TransCanada has previously committed to moving the rest of its U.S. gas pipelines into the TC PipeLines unit over the next several years. Shareholders currently benefit more from keeping the pipeline and power businesses together, Karl Johannson, who heads the company's natural gas pipelines unit, said on a July 31 call in response to a question by Citigroup's Khan.

The company has been vocal that it's not interested in spinning off the U.S. power business, partly because it will support future maintenance spending at its Bruce nuclear facilities in Canada, said John Stephenson, who manages shares of TransCanada at Stephenson & Co.

"It makes little sense," Stephenson said. "This stock has been a stellar performer."

Putting assets into master limited partnerships, or MLPs, has become a popular way for companies with U.S. assets to fund growth. TransCanada could consider hastening its move to place assets into its MLP and issue equity from the U.S. business at a higher valuation, said Stephen Loukas, a partner at FrontFour Capital Group LLC, a hedge fund based in Greenwich, Connecticut, that owns TransCanada shares.

Value Boost

"From current value, you're talking 25 percent plus upside," in TransCanada's stock, he said, adding FrontFour isn't agitating for change and is unaware of any activists involved. "It's fair to say that there are a lot of U.S.-based investors that are in the process of doing work on the company."

TransCanada shouldn't break up its assets unless that creates long-term value above and beyond its current prospects, including better dividend growth, Michael Formuziewich, who owns the shares at Leon Frazer & Associates Inc., said in an e-mail.

"A breakup to get a one-time valuation bump, assuming the dividend growth and safety is not changed, is not of interest to us," Formuziewich said.

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